WORKING GROUP REPORT

Retail Sales Tax/
Goods and Services Tax

FAIR TAX • COMMISSION • DE L'ÉQUITÉ FISCALE

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REPORT

AOE-6850

April 10, 1992

The Honourable Floyd Laughren
Treasurer of Ontario and Minister of Economics
7th Floor Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

Dear Minister:

The RST/GST Working Group of the Ontario Fair Tax Commission is pleased to submit its final report.

Yours truly,

Irene David

Irene David
Chair
RST/GST Working Group

RST/GST Membership List

Andrew Aitkens	Director of Research and Communications, One Voice—The Canadian Seniors Network
Peter Bleyer	Action Canada Network
Robin Boys	Vice President Planning, Shoppers Drug Mart
Lucienne Bushnell	Vice President, Issues and Policies, Consumers' Association of Canada (Ontario)
Graham Cudlipp	Vice President, Finance, and Secretary, Economical Mutual Insurance Company
Irene David (Chair)	Partner, Ernst & Young
Michael Doyle	Director of Education, Training and Health and Safety Fund of the United Food and Commercial Workers International Union
Virginia Davies	Tax Counsel, Bank of Montreal
Bob Hebdon (withdrawn)	Senior Research Officer, Ontario Public Service Employees Union
Katrin Horowitz (withdrawn)	President, Planning Initiatives
Jacqui MacDonald	Managing Director, Bridgehead Inc.
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William Molson	Owner, Frida Craft Stores
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Carolann Wright (withdrawn)	Community Health Outreach Worker, Women's Health in Women's Hands
Darla Youldon	Canadian Pricing Manager, John Deere Limited

Executive Summary

Mandate Of The Working Group

The RST/GST Working Group is one of eight groups established by the Treasurer to answer specific questions regarding the fairness of the current tax system. The Treasurer's questions to this group were:

> ***What changes should be made to Ontario's retail sales tax now that the federal government has implemented the goods and services tax? Are there any changes that should be made for administrative or policy reasons as the result of having both RST and GST collected at the retail level?***

In addition, the Commissioners of the Fair Tax Commission asked the working group to consider a number of other questions.

The Process

The Treasurer appointed members to the working group in mid-September 1991. Working group members were all volunteers who donated both their time and their expertise to the process. The group's membership encompassed a range of constituencies that would be affected by any changes to the retail sales tax. The working group included representatives from business, community groups, labour, consumer advocacy groups, and the academic community. Members from the business community were from manufacturing industry, financial services, retail sector, and tax professionals.

Options Under Consideration

Working group members identified five broad options available to the Ontario government in response to the implementation of the federal GST. They evaluated these options on their economic and distributional impact.

- Eliminating the retail sales tax;
- Status Quo with no change in policy;
- Modifying the existing retail sales tax to improve the fairness to Ontario residents and businesses;
- Fully harmonizing Ontario's sales tax with the federal government's existing goods and services tax;
- Suggesting modifications to the current goods and services tax that would improve it and make harmonization more attractive to Ontario.

In conjunction with the last four options, the working group considered enrichment and redesign of the low-income sales tax credit.

Recommendations

Despite fundamental differences in their views on the appropriate direction for sales tax reform in Ontario, the working group reached agreement in a number of areas. Members were able to reach consensus on a number of goals and agreement on a recommendation for a set of interim reforms. These differences are outlined below, and are followed by the areas of agreement.

A major difference among members was the weighting of the importance of simplicity and neutrality versus the negative implications of the regressivity of sales taxes. This lead to a major difference in the views on the taxation of services. While some members felt that expanding the base to services and harmonizing with the GST would increase its simplicity, neutrality and visibility; other members saw the expansion of the base to services as giving too much credibility to sales taxes as a method of raising revenue.

There was another area of major disagreement between working group members. Some members felt that provincial autonomy to direct tax policy was very important. Other members felt that the trade-offs between simplicity and provincial autonomy associated with harmonized sales tax systems were worthwhile.

Accordingly, some members felt Ontario should enter into negotiations with the federal government to harmonize their sales tax systems. Other members felt that the elimination of Ontario sales taxes should be the government's longer-term goal.

Finally, with respect to the recommendation made below, there were two areas where the group was not able to reach consensus. The first was the treatment of books and periodicals. Some members felt strongly that they should be exempt from tax. The second area in which consensus could not be reached was the manner in which the revenue loss associated with the recommendation should be recovered.

Areas of Consensus

Despite the differences among working group members on the goals for sales tax reform, working group members did have areas of agreement. The criteria that they set out at the beginning of the process—the need for some low-income relief to offset the regressivity of the sales tax and, the need for changes to the sales tax system to contribute to economic growth—lead them to consensus on the following as appropriate goals for sales tax reform:

- Changes to the tax should encourage increased efficiency and productivity;
- The sales tax credit should be enhanced to offset any increase in tax paid by low-income individuals;

- All capital goods used for business investment should be exempt from sales tax;
- Sales taxes on business inputs, in addition to capital goods, should be reduced, provided any regressive impact for low-income individuals from this change is offset by refundable tax credits;
- Short-run employment losses associated with reform should be minimized;
- There should be no relative shift towards sales taxes as a revenue source as compared with other tax bases;
- The sales tax burden on charities should be reduced;
- The sales tax burden on municipalities, universities, schools and hospitals should not be increased; and,
- The GST should continue to be excluded from the base of the RST.

Recommendation

Despite the lack of consensus on broader goals, members had consensus on the following recommendation in the context of the concerns outlined above:

> As an interim measure, Ontario should broaden the retail sales tax base on goods to be consistent with the federal tax; the associated increase in revenue should be used to reduce the rate; all capital goods should be exempt from retail sales tax; and an enhanced refundable sales tax credit should be implemented to offset the impact of these changes on low-income individuals.

While some members saw this as an interim step to harmonization, others saw it as a way in which to mitigate the negative aspects of the current retail sales tax until the longer term goal of eliminating the tax could be achieved.

RST/GST Working Group

REPORT

1. INTRODUCTION

i. Mandate Of The Working Group

The RST/GST Working Group is one of eight groups established by the Treasurer to answer specific questions regarding the fairness of the current tax system. The Treasurer's questions to this group were:

> *What changes should be made to Ontario's retail sales tax now that the federal government has implemented the goods and services tax? Are there any changes that should be made for administrative or policy reasons as the result of having both RST and GST collected at the retail level?*

In addition, the Commissioners of the Fair Tax Commission asked the working group to consider the following questions:

> *Should Ontario abandon the retail sales tax and enact a multi-stage sales tax?*
>
> *What kind of administrative arrangements with the federal government should be made if such a tax was enacted?*
>
> *What form of low-income relief should be brought in to counteract the regressive aspects of such a tax?*
>
> *Should something be done about the windfall gains to the business sector resulting from the shift to a multi-stage sales tax from a retail sales tax?*

ii. The Process

The Treasurer appointed members to the working group in mid-September 1991 and asked them to report by February 1992. Working group members then requested an extension of the reporting deadline to the end of March. Working group members were all volunteers who donated both their time and their expertise to the process.

The group's membership encompassed a range of constituencies that would be affected by any changes to the retail sales tax. The working group included representatives from business, community groups, labour, consumer advocacy groups, and the academic community. Members from the business community were from manufacturing, financial services, retailing, and tax professionals. The group was provided with support from the Fair Tax Commission Secretariat and representatives from various ministries in the Ontario public service.

At the initial meetings, members engaged in an education program to familiarize themselves with the current Ontario retail sales tax, the federal goods and services tax, and the issues that are relevant when considering the two taxes in relation to each other. Presentations were made to the group on: the operation of the retail sales tax, sales tax issues, incidence of the Ontario retail sales tax, the tax policy making process, and sales tax competitiveness.

Another important aspect of the education process was discussions among members on sales taxes and tax fairness. These discussions allowed members with different perspectives to understand each other's point of view on tax fairness and appropriate goals for the retail sales tax. As a result of these presentations and discussions, the working group developed a set of options to consider and criteria to use when evaluating them.

Given the Commission's extensive consultation process, and the tight timeline of the working group, members decided the most appropriate form of consultation for them to pursue from the broader community would be to solicit written submissions. A letter outlining the options the working group was considering was sent to a range of organizations that were considered to have a direct or indirect interest in the impact of sales tax reform. These organizations were asked to comment on the options considered by the group, focussing on the impact on their membership. Submissions were solicited from 39 organizations, and 20 were received (Appendix 2 contains a list of these organizations).

2. CRITERIA FOR EVALUATING OPTIONS

During the course of the discussions on tax fairness, it became evident that working group members held divergent views on the issue. These views reflect two different approaches to the subject.

One approach starts from the position that the tax system can and should achieve fairness in the sum of its parts. Currently, progressive elements of the tax system are delivered through the personal income tax. Members who hold this view believed that it is through the personal income tax that any regressivity of sales taxes can be corrected.

From this perspective, the main objective of the retail sales tax is to raise revenue. The goal for design of a sales tax is to be as simple and efficient as possible, so that economic growth and employment can be encouraged. This simplicity and efficiency calls for a very broad base and as little tax on intermediate goods as possible. The goal of simplicity also suggests that having both the federal and provincial governments administer separate sales taxes is inefficient.

The design problems that need to be solved from this perspective are as follows. The negative impact of the retail sales tax on low-income individuals' access to basic goods needs to be offset. While the broadest base possible is desirable, some goods and services still cannot be taxed for both political and practical reasons. The group of these goods and services needs to be defined.

The second perspective starts with the view that the current tax system is not sufficiently progressive. Therefore, changes to the sales tax should be evaluated on whether they increase the progressivity of the tax system and further social goals. From this perspective, retail sales taxes are an undesirable revenue source because of their regressivity. However, practical and political problems associated with major restructuring of the tax system would make elimination of sales taxes too difficult at this time.

The objectives of any reform to the tax system from this perspective are to reduce the sales tax burden on the poor and to restructure the retail sales tax so the current burden is shifted away from those with low and middle incomes toward high-income individuals. The efficiency criteria are more closely related to whether the tax changes encourage increased investment and employment in Ontario than to simplicity and administrative ease.

The major design problems that need to be solved from this perspective are as follows. Essential goods and services need to be identified so that they can be exempt from tax. The need for low-income credits should be minimized to avoid the cash flow and accessibility problems associated with them. The low income credits need to be designed in a way that ensures that they meet the needs of those receiving

them. This would include increased sensitivity to different spending patterns and to the definition of income on which eligibility for the credit is based. A tax design needs to be identified that will minimize, or at least not increase the tax or administrative burdens on charitable and non-profit organizations. Any changes for efficiency reasons should be targeted specifically toward increasing the productive capacity of the economy and employment.

While these two perspectives represent fundamentally different outlooks, they are not necessarily mutually exclusive. There are areas of agreement. The first is the need for some low-income relief to offset the regressivity of the tax system. The second is that any changes to the sales tax system should contribute to economic growth.

The working group agreed to two sets of criteria against which to evaluate any changes to the retail sales tax. The first was the economic and competitive impact (which includes the costs of compliance and administration) of the tax. The second was the distributional impact.

In order to have a quantifiable basis upon which to evaluate the various options, the working group used the Social Policy Simulation Database Model developed by Statistics Canada to evaluate the distributional impact, and the FOCUS-Ontario model, developed by the Institute for Policy Analysis at the University of Toronto, to evaluate the economic impact of various options.

3. OPTIONS UNDER CONSIDERATION

Working group members identified five broad options available to the Ontario government in response to the implementation of the federal GST:

- Eliminating the retail sales tax;
- Status Quo with no change in policy;
- Modifying the existing retail sales tax to improve the fairness to Ontario residents and businesses;
- Fully harmonizing Ontario's sales tax with the federal government's existing goods and services tax;
- Suggesting modifications to the current goods and services tax that would improve it and make harmonization more attractive to Ontario.

In conjunction with the last four options, the working group considered enrichment and redesign of the low-income sales tax credit.

The working group spent a number of meetings refining the latter three options. Early in the process, members decided that all options considered would be revenue neutral to maintain comparability between them and to limit the possible range of options. The options were not constrained to recover all the revenue from the retail sales tax. For analytical purposes, options were considered which recovered some of the revenue from personal or corporate income taxes. However, working group members were aware that the Treasurer will have a wider range of choices available to him.

i. Modified Retail Sales Tax

While discussing possible modifications to the retail sales tax, members considered ways in which it could better meet social goals of equity, progressivity and increased productivity. Concerns about the adequacy and design of the low-income credit were expressed. The erosion of the credit through the lack of indexation was also pointed out as a problem. The need for a low-income credit to be designed to more closely reflect variations in spending patterns and needs among people receiving it was expressed. This could take the form of a single supplement, and enriched credits for seniors and people with disabilities. However, some members also had concerns about increases in personal income taxes associated with these changes. Members also questioned the current structure of exemptions to the sales tax, and whether the policy justifications for them remained valid. As a result, the experiments that were conducted removed all exemptions that were not present in the current GST base for goods.

While discussing changes to the retail sales tax in response to the GST, the group considered changes that could be made to the administration of the Ontario retail sales tax to make compliance with the two sales tax systems simpler. The working group came to the conclusion that there was not a great deal of room for simplification within the context of two parallel sales tax systems. In addition, there did not appear to be any way to jointly administer the two taxes. Aside from the fact that many businesses already administer the two taxes, from the perspective of ease of administration and compliance, harmonization was the only meaningful option.

As a result, the modifications to the RST that were analysed focussed on another positive economic impact of implementation of the GST. One of the aspects of the multi-stage nature of the GST is that it removes the tax on all intermediate goods, or business inputs. Some of these business inputs, capital goods, are particularly important from a macroeconomic perspective because they increase the productive capacity of the economy.[1] By removing the tax on these goods, their prices decrease, which in turn encourages increased investment. This decrease in the cost of capital goods would enhance the attractiveness of Ontario as an investment location. The cost of investment in Ontario relative to other jurisdictions becomes particularly important if Quebec proceeds to the second stage of harmonization as planned. In this second stage of harmonization, all business inputs will be exempt from tax in Quebec.

ii. Harmonization

Initial research conducted for the working group suggested that a revenue neutral harmonization of the retail sales tax with the GST would result in a 7 per cent rate, a one percentage point drop from the current retail sales tax rate. Moving to a multistage sales tax results in tax paid on business inputs being refunded through input tax credits, effectively removing these inputs from the tax base. The increased revenue from broadening the sales tax base on personal consumption expenditures is largely offset by the loss of tax on business inputs. This rate did not provide for any additional revenue for enrichment of the low-income sales tax credit, nor did it anticipate obtaining any revenue from other tax sources. [2]

The amount of revenue shifted to the personal sector, as well as consumers' response to the increase in goods and services subject to the tax without a meaningful decrease in the rate, was of concern to some members. Some members were also concerned that the tax savings to business would not be passed on to consumers. In addition, the economic impact results suggested that the transitional costs to the economy of harmonization varied with how high the rate was set. If some of the revenue loss associated with the removal of tax from business inputs was recovered

[1] There is currently an exemption from Ontario retail sales taxes for production machinery and equipment, however, other capital goods are subject to tax.

[2] With a low-income offset that was similar to that of the federal government the rate would be close to 8 per cent.

through other taxes, the transitional costs were reduced. This resulted from different tax bases having different impacts on the aggregate price level in the economy. Research on the relative distributional impact of various taxes suggested that recovering some of the revenue from other tax bases would also be desirable from a distributional perspective.

iii. Modified Goods and Services Tax

In considering this option, working group members operated within the framework of a tax that was in principle the same as the GST (a multi-stage sales tax). Members considered what modifications, within the structure of such a tax, might be desirable. In particular, areas were identified where Ontario should work with the federal government to consider changes to the GST that would also be implemented for an Ontario tax. They were assisted in this by the submissions they received that addressed both these and other issues. The working group did not have the time or resources to complete the in-depth industry studies required to make detailed recommendations to the Treasurer on these modifications. However, the group identified the following issues and sectors which would benefit from further analysis both by Ontario and the federal government:

- The treatment of food;
- The treatment of residential construction;
- The complexity and additional costs associated with the treatment of municipalities, universities, schools, hospitals (MUSH sector);
- The impact that the GST has had on non-profit organizations and charities;
- The treatment of financial services industries, and in particular, financial intermediation;
- The treatment of books and periodicals.

There are a number of issues of a technical nature which the Treasurer would have to address with respect to implementation of a provincial GST. One of these is whether the tax should be single or multi-stage. There are constitutional aspects to this question which the working group was not equipped to address. However, working group members were in a position to comment on the impact on industry. Ease of compliance was considered very important, and members suggested that a multi-stage system that paralleled that of the federal GST would be preferable. The potential for abuse in a single-stage tax using exemption certificates or registration numbers was of concern to some members. The latter system can create difficulties when purchasing goods from a non-standard supplier, from retailers or when an order includes both goods for "own use" and for resale. In addition, there are complexities for vendors in a single-stage system. However, some members felt that the cash flow benefits from the single-stage tax mitigated some of the administrative dif-

ficulties, particularly when the exemption applies only to invoices which exceed a minimum amount.

iv. Low-Income Credit Design

All members of the working group were concerned about the adequacy and design of the low-income sales tax credit both under the existing sales tax system and the various options under consideration. Several experiments were conducted to determine the impact of a credit that was larger than the sales tax portion of the Ontario property and sales tax credits, and did not replicate the design flaws of the federal GST credit.[3] Initially, members considered the impact of an Ontario sales tax credit that was designed to be equal in total expenditure to the GST credit in Ontario, and designed in the following manner: $350 per adult, $175 per child, and $100 increment for seniors. The credit was phased out when family net income exceeds the Statistics Canada low income cut-off for families of that size. For each dollar of income over the threshold, the credit is reduced by 5 per cent. While the structure of the credit was retained, the actual dollar amounts and the phase-out rate were varied as working group members targeted the credit in the manner described in the research results below.

v. Design of Options

In order to refine the policy options, a number of experiments were conducted to determine the relevant choice variables from both distributional and economic impact perspectives for the full harmonization and modified retail sales tax options. Simulations were structured to highlight the most important factors in evaluating the macro-economic impact of changes to the retail sales tax. The choice variables were: the rate of tax, the base of goods and/or services subject to the tax, and what other taxes could be used to recover part of the existing retail sales tax revenues. For both the modified RST and the GST options, experiments were conducted collecting part of the revenue from personal or corporate income taxes, as well as recovering all of the revenue from sales taxes. For the modified RST, option experiments were conducted on different tax bases. Harmonization experiments were conducted at various rates.

With respect to the distributional impact of various options, the choice variables were the base, and what other taxes were used to recover part of the existing retail sales tax revenues. Experiments were conducted to determine the distributional impact of the various sales tax bases under consideration. This was done by collecting the same amount of revenue from the GST base, and the modified RST bases described below. In this manner, the impact of changes in the base was isolated from changes in the rate and therefore the amount of revenue collected. In addition, an experiment was conducted to determine the distributional impact of recovering part

[3] The Ontario tax credit offsets both sales and property taxes; for analytical purposes the sales tax credit share was estimated proportionally.

of the revenue through corporate or personal income taxes (both through the rate and through an increase in surtaxes). The experiments described below were conducted with an increase in the rate, because the working group did not have the time, mandate or expertise to redesign the personal income tax system.

As a result of these experiments, four different alternatives were chosen for further analysis, the results of which are reported below. These alternatives included three variations on the modified RST option and one for the full harmonization option:

- Modified RST, at the revenue neutral rate of 6.3 per cent, with the goods base extended to that of the GST, including both business and personal consumption of energy[4];
- Modified RST, at a 6.3 per cent rate, with the goods base extended to that of the GST, including both business and personal consumption of energy, capital goods are exempted from the tax, with the associated revenue loss recovered through personal income taxes;
- Modified RST, at a 5.7 per cent rate[5], with the base extended to goods and personal services (excluding personal business services), capital goods are exempted from the tax with the associated revenue loss recovered through personal income taxes;
- Full Harmonization at a 6 per cent rate with the remaining revenue recovered from personal income taxes.

No simulations were conducted for the modified GST option, as the macroeconomic impacts were assumed to be similar to those of the full harmonization.

[4] The inclusion of energy accounted for the majority of the reduction in the sales tax rate, experiments conducted which excluded energy had a revenue neutral rate of 7.6 per cent.
[5] This was the revenue neutral rate for this base prior to capital goods being exempt.

4. RESEARCH RESULTS

The results reported below use the FOCUS-Ontario model from the Institute for Policy Analysis and the Social Policy Simulation Database/Model (SPSD/M), developed by Statistics Canada (see appendix for descriptions of the models).[6] The FOCUS-Ontario model was used for "scenario simulation", in which the impact of the tax policy changes outlined above are compared to a "base case" simulation in which the current tax structure is retained. Each of these scenarios were assumed to begin in 1993 and the impacts over the next 10 years were reported. Because FOCUS-Ontario is a macroeconomic model, it cannot provide information on the distributional impact of policy changes. As a result, information from these simulations was then used in the context of SPSD to provide distributional analysis.

SPSD operates in a static environment (1991), and only operates in the personal sectors of the economy. Much of the analysis that was conducted involved shifting the shares of the sales tax between the business and personal sector of the economy, therefore a number of assumptions had to be made outside the context of the model. Statistics Canada's COMTAX model, which is used in conjunction with SPSD, was drawn on for estimates of the distribution of the current retail sales tax among sectors.

i. Economic Analysis Assumptions

The following assumptions were made about administration and compliance costs in the full harmonization simulation.

- Under full harmonization, government current expenditures are reduced by $40 million per year to account for the reduced administrative costs.[7] This represents the potential cost savings regardless of which level of government administers the tax.
- Under full harmonization, the reduced costs of compliance for the private sector are reflected in a $65 million increase in productivity.[8]

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[6] This analysis is based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by the Fair Tax Commission Secretariat, and it is responsible for the use and interpretation of these data.

[7] This is the estimate by the Ministry of Revenue of the total cost of administering the retail sales tax. While it is likely that Ontario would have to share administration costs with the federal government, this figure was used as an outside limit to the possible administrative cost savings associated with harmonization.

[8] Estimates of the compliance costs to business of multiple sales taxes are difficult to find. This figure was arrived at by using the estimate of increased costs to businesses of administering multiple vs. single VAT rates in Cedric Sandford "The Administrative and Compliance Costs of the United Kingdom's Value Added Tax," , Canadian Tax Journal, vol. 38, no.1, 1990, pp. 1-20.

For both sets of experiments, it is assumed that the share of tax paid by governments will remain the same. This could occur through an adjustment in the rate or the level of financial support from the provincial government.

ii. Distributional Analysis Assumptions

The following assumptions were made about shifting of the portions of the retail sales tax that do not fall directly onto consumers:

- A portion of the RST paid by businesses is ultimately borne by consumers. As a result, under full harmonization, this portion of the total reduction in tax paid by businesses will be passed on to consumers in the form of lower prices.
- The portion of the RST which falls on business investment (spending on capital goods) is reflected in the prices of those goods. The removal of the RST therefore results in a reduction in the after-tax cost of capital goods.
- A portion of RST paid by businesses is ultimately reflected in the price of exports. As a result, with harmonization, taxes previously in the export price must be paid by Ontario consumers.
- In the modified RST alternatives, the increase in taxes on business energy that falls on consumer goods and services is passed on to consumers in the form of higher prices.

iii. Economic Impact Results

The following text and tables describe simulations that were conducted on the FOCUS-Ontario model. The results that are reported are changes from the "base case scenario", and measure the effect of the change in comparison to what the existing projections in the model are.

Overview

There is not a great degree of difference in the economic impact of the three alternatives that include some reduction in tax on business inputs. When investment goods are exempt and the revenue is recovered through personal income taxes, there is an initial negative impact on GDP and employment. This negative impact is due to the fact that the decrease in consumption occurs more quickly and outweighs the increase in investment. However, the negative impact is not large and is offset by an increase in productive capacity in later years. The alternative that does not exempt business inputs has a negligible macroeconomic impact.

Modified RST with extended goods base

In this simulation, the base of the retail sales tax was extended to equal that of the GST on goods, but not of services. As a result, exemptions for items such as books and children's clothing were eliminated. The largest change was the inclusion of energy for both personal and business consumption. The expansion of the base results in a decrease in the sales tax rate to 6.3 per cent. Initially, this simulation has a slight negative impact on economic activity. However, by the end of the simulation period the impact on real GDP goes to zero. The results of this simulation are reported in Table 1.

Modified RST with extended goods base and capital goods exempt

In this simulation, the base of the retail sales tax was the same as the previous modified RST alternative. As a result, it was extended to equal that of the GST on goods, but not on services. The sales tax rate was reduced to 6.3 per cent. The tax was left as a single stage tax and therefore the administration was not harmonized with that of the GST. Sales tax was removed from capital expenditures (plant and equipment). The revenue loss resulting from the exemption for capital goods was offset through an increase in personal income taxes. As a result Ontario personal income taxes increase by about $1.3 billion or 7.6 per cent. This represents a 2.6 per cent increase in total (federal and provincial) personal income taxes paid by Ontarians.

The results of this simulation are reported in Table 2. In the first year, real GDP is 0.25 per cent below the base case level. However, there is a slight positive GDP impact thereafter, which increases throughout the projection period. There is an immediate positive impact on investment in machinery and equipment and non-residential construction. The increase in investment in machinery and equipment was about twice that of the increase in non-residential construction. These positive impacts continued throughout the simulations. Initially, there is quite a sharp drop in employment of about 23,000 jobs. The negative impact drops off after that year and is close to zero for the remainder of the simulations.

Modified RST with the base extended to goods and services and capital goods exempt

In this simulation, the base of the retail sales tax was extended from the previous RST alternative to include the services (other than personal business services) in the base of the GST. The rate was reduced to 5.7 per cent. The tax was left as a single stage tax and therefore the administration was not harmonized with that of the GST. The sales tax was removed from capital expenditures. The revenue from exempting capital goods was recovered through an increase in personal income taxes. As a result, Ontario personal income taxes increased by about $1.1 billion or 6.7 per cent. This is a 2.3 per cent increase in total (federal and provincial) income taxes paid by Ontarians.

The results of this simulation are reported in Table 3. For the first three years of the simulation, there is a slight negative impact on GDP as the decrease in consumption outweighs the increase in business investment. In the first year, real GDP is 0.38 per cent below the base case level. However, the negative impact drops off sharply after the first year.

There is an immediate positive impact on investment in machinery and equipment and non-residential construction. The increase in investment in machinery and equipment was about twice that of the increase in non-residential construction. These positive impacts continued throughout the simulations. Initially, there is quite a sharp drop in employment of about 32,000 jobs. This negative impact dwindles throughout the simulation.

Full Harmonization

In this simulation, the Ontario retail sales tax was harmonized with the GST, with Ontario moving to a multi-stage sales tax and adopting the same base as the GST. The provincial GST rate was set at 6 per cent, the rate at which the Consumer Price Index was unchanged. The loss in revenue was recovered from an increase in personal income taxes. As a result, Ontario personal income taxes in the first year are increased by about $1.5 billion, or an 8.6 per cent increase. This is a 3 per cent increase in total (federal and provincial) income taxes paid by Ontarians.

The results of this simulation are reported in Table 4. Initially, there is a slight negative impact on GDP. In the first year, real GDP is 0.42 per cent below the base case level. However, the negative impact drops off sharply after the first year. Three years after implementation, the impact on GDP is positive.

There is an immediate positive impact on investment in machinery and equipment and non-residential construction. The increase in investment in machinery and equipment was about twice that of the increase in non-residential construction. These positive impacts continued throughout the simulations. In the first year, there is quite a sharp drop in employment of about 31,000 jobs. By the sixth year after implementation, the employment impact of harmonization is positive.

Table 1: Economic Impact of Modified RST

(Impacts are percentage changes unless otherwise indicated)	1993	1994	1995	1996	1997	1998	1999	2000	2001
Real Output and Components									
Real Gross Domestic Product	-0.05	-0.10	-0.05	-0.06	-0.05	-0.02	0.00	0.00	0.00
Consumption	-0.06	-0.18	-0.13	-0.11	-0.09	-0.03	0.00	0.02	0.04
Goods	0.07	-0.07	-0.03	-0.03	-0.02	0.03	0.06	0.06	0.07
Services	-0.18	-0.29	-0.24	-0.19	-0.16	-0.09	-0.05	-0.02	0.01
Investment									
Residential Construction	-0.20	-0.48	-0.30	-0.36	-0.37	-0.18	-0.10	-0.13	-0.11
Machinery and Equipment	0.16	0.13	0.23	0.28	0.19	0.14	0.22	0.24	0.17
Non-Residential Construction	0.02	0.07	0.17	0.19	0.17	0.15	0.14	0.12	0.11
Exports	0.00	0.00	0.00	0.00	0.00	0.02	0.02	0.03	0.04
CPI - % Change in Level	0.01	0.08	0.06	0.05	0.01	-0.06	-0.11	-0.16	-0.22
Unemployment Rate (% points)	0.06	0.13	0.12	0.14	0.14	0.11	0.09	0.09	0.09
Employment (000's)	-4.49	-11.65	-11.13	-12.83	-13.89	-11.16	-9.63	-9.50	-9.30
Sales Tax Rate (Change)	-1.69	-1.69	-1.69	-1.69	-1.69	-1.69	-1.69	-1.69	-1.69
Levels Changes ($86 Mill.)									
Real Gross Domestic Product	-111	-253	-139	-159	-137	-54	-11	-7	12
Consumption	-78	-255	-199	-171	-142	-53	7	38	75
Goods	50	-48	-20	-19	-16	23	48	54	63
Services	-128	-207	-179	-151	-126	-77	-40	-16	13
Investment									
Residential Construction	-28	-73	-48	-61	-66	-34	-20	-26	-22
Machinery and Equipment	34	32	60	79	59	46	73	85	62
Non-Residential Construction	1	7	18	21	18	17	17	15	13
Exports	1	4	4	-2	4	25	39	48	63
(Source: Institute for Policy Analysis)									

Table 2: Economic Impact of Modified RST, Goods - Capital Exempt

(Impacts are percentage changes unless otherwise indicated)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Real Output and Components									
Real Gross Domestic Product	-0.25	0.01	0.03	0.13	0.26	0.33	0.34	0.40	0.44
Consumption	-0.91	-0.84	-0.80	-0.67	-0.47	-0.34	-0.32	-0.27	-0.22
Goods	-0.78	-0.67	-0.69	-0.57	-0.36	-0.23	-0.22	-0.17	-0.12
Services	-1.03	-1.01	-0.92	-0.77	-0.57	-0.44	-0.42	-0.36	-0.31
Investment									
Residential Construction	-0.79	-0.57	-0.78	-0.47	0.07	0.27	0.21	0.34	0.39
Machinery and Equipment	2.07	3.65	3.78	3.57	3.60	3.86	3.86	3.88	4.08
Non-Residential Construction	0.56	1.38	1.64	1.65	1.64	1.60	1.46	1.43	1.51
Exports	0.02	0.05	0.09	0.15	0.21	0.25	0.30	0.34	0.36
CPI - % Change in Level	-0.02	0.00	-0.07	-0.18	-0.31	-0.39	-0.44	-0.49	-0.50
Unemployment Rate (% points)	0.27	0.24	0.28	0.23	0.12	0.05	0.03	0.00	-0.03
Employment (000's)	-22.63	-21.68	-25.60	-21.86	-12.02	-5.25	-3.43	-0.02	2.62
Sales Tax Rate (Change)	-1.69	-1.69	-1.69	-1.69	-1.69	-1.69	-1.69	-1.69	-1.69
Levels Changes ($86 Mill.)									
Real Gross Domestic Product	-608	18	72	359	756	995	1,074	1,315	1,509
Consumption	-1,262	-1,213	-1,201	-1,036	-749	-556	-552	-471	-392
Goods	-545	-480	-512	-436	-287	-190	-189	-145	-109
Services	-717	-734	-689	-599	-463	-366	-363	-326	-282
Investment									
Residential Construction	-111	-87	-126	-81	13	51	40	69	82
Machinery and Equipment	438	869	1,001	1,017	1,103	1,241	1,302	1,354	1,471
Non-Residential Construction	51	133	171	178	183	183	173	175	188
Exports	27	72	127	216	318	408	498	584	643

(Source: Institute for Policy Analysis)

Table 3: Economic Impact of Modified RST, Goods and Services - Capital Exempt

(Impacts are percentage changes unless otherwise indicated)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Real Output and Components									
Real Gross Domestic Product	-0.38	-0.11	-0.06	0.03	0.19	0.27	0.27	0.33	0.38
Consumption	-1.08	-1.01	-0.91	-0.78	-0.54	-0.39	-0.40	-0.36	-0.32
Goods	-0.57	-0.39	-0.35	-0.24	0.01	0.15	0.13	0.16	0.19
Services	-1.59	-1.63	-1.47	-1.31	-1.08	-0.92	-0.92	-0.87	-0.81
Investment									
Residential Construction	-1.15	-1.01	-0.99	-0.67	0.04	0.35	0.26	0.40	0.46
Machinery and Equipment	1.99	3.48	3.68	3.49	3.53	3.82	3.83	3.81	3.98
Non-Residential Construction	0.52	1.31	1.61	1.60	1.57	1.51	1.35	1.31	1.40
Exports	0.02	0.04	0.08	0.13	0.20	0.25	0.30	0.35	0.38
CPI - % Change in Level	0.16	0.24	0.20	0.09	-0.06	-0.16	-0.23	-0.29	-0.32
Unemployment Rate (% points)	0.38	0.36	0.37	0.31	0.16	0.07	0.05	0.01	-0.02
Employment (000's)	-31.53	-32.34	-33.53	-29.44	-16.41	-7.27	-4.96	-0.99	2.21
Sales Tax Rate (Change)	-2.32	-2.32	-2.32	-2.32	-2.32	-2.32	-2.32	-2.32	-2.32
Levels Changes ($86 Mill.)									
Real Gross Domestic Product	-923	-292	-164	93	564	817	860	1,091	1,278
Consumption	-1,501	-1,456	-1,366	-1,203	-864	-649	-688	-637	-582
Goods	-394	-280	-263	-182	7	124	110	142	167
Services	-1,107	-1,176	-1,103	-1,021	-871	-772	-798	-779	-749
Investment									
Residential Construction	-162	-154	-161	-114	8	65	51	80	95
Machinery and Equipment	420	828	974	993	1,082	1,228	1,294	1,331	1,436
Non-Residential Construction	47	127	167	173	176	173	161	160	175
Exports	19	58	107	192	303	404	502	600	673

(Source: Institute for Policy Analysis)

Table 4: Economic Impact of Harmonization

(Impacts are percentage changes unless otherwise indicated)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Real Output and Components									
Real Gross Domestic Product	-0.42	-0.04	-0.01	0.12	0.27	0.32	0.32	0.37	0.41
Consumption	-1.31	-1.14	-1.06	-0.91	-0.69	-0.59	-0.62	-0.59	-0.55
Goods	-0.56	-0.23	-0.21	-0.05	0.18	0.27	0.22	0.24	0.25
Services	-2.06	-2.06	-1.91	-1.75	-1.54	-1.43	-1.45	-1.39	-1.32
Investment									
Residential Construction	-1.15	-0.72	-0.74	-0.23	0.49	0.62	0.43	0.47	0.40
Machinery and Equipment	2.24	4.00	4.14	3.93	4.03	4.34	4.32	4.33	4.55
Non-Residential Construction	0.63	1.61	1.91	1.87	1.83	1.75	1.59	1.57	1.67
Exports	0.13	0.22	0.27	0.34	0.41	0.46	0.50	0.53	0.54
CPI - % Change in Level	0.23	0.24	0.17	0.04	-0.08	-0.14	-0.19	-0.21	-0.20
Unemployment Rate (% points)	0.38	0.28	0.27	0.16	0.00	-0.07	-0.07	-0.08	-0.08
Employment (000's)	-30.94	-25.30	-24.90	-15.79	-0.68	6.54	6.76	8.29	8.21
Sales Tax Rate (Change)	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00
Levels Changes ($86 Mill.)									
Real Gross Domestic Product	-1,024	-109	-19	333	782	977	1,006	1,225	1,391
Consumption	-1,818	-1,652	-1,590	-1,403	-1,108	-979	-1,067	-1,043	-998
Goods	-387	-164	-155	-39	143	224	189	208	223
Services	-1,432	-1,488	-1,435	-1,364	-1,251	-1,203	-1,256	-1,250	-1,221
Investment									
Residential Construction	-163	-109	-119	-40	88	116	82	94	82
Machinery and Equipment	475	952	1,098	1,119	1,234	1,393	1,457	1,513	1,642
Non-Residential Construction	56	156	198	203	205	201	189	191	208
Exports	164	297	378	500	631	735	831	912	957
(Source: Institute for Policy Analysis)									

iv. Distributional Impact Results

The following information shows the distributional impact of the various alternatives.[9] The net impact figures include sales tax, personal income tax and price impacts. The costs of two credit designs were then calculated. Credit one was targeted to offsetting, on average, the **increase in sales taxes**, net of price impacts, paid by the first three income groups ($0-$30,000), as a result of the policy change. Credit two was targeted to offsetting the **total sales tax paid**, net of price changes, by the first two income groups ($0-$20,000). The overall design of the credit remains that it is sensitive to family size, and there is an enhanced amount for seniors. The dollar amount per family, and the reduction rates vary with different designs.

Overview

The overall impact of the four alternatives on the personal sector of the economy can be characterized as follows. Full harmonization would result in a $1.9 billion[10] decrease in the income available to the personal sector. The modified RST with an extended goods base represents a $200 million decrease in income available to the personal sector. The modified RST with extended goods base and capital goods exempt represents a $1.4 billion decrease in income available to the personal sector. The modified RST with the base extended to goods and services and capital goods exempt represents a $1.5 billion decrease in the income available to the personal sector. More detailed information on the aggregate impact of the alternatives is in the text below.

The distributional impact of the sales tax component of the alternatives can be summarized by the relative cost of the credits for each of the alternatives. Credit two for full harmonization costs $1.3 billion. Credit two for the modified RST with the base extended to goods costs $1.2 billion. Credit two for the modified RST with the base extended to goods and services costs $1.4 billion. The higher cost of the credit for the latter alternative results from the impact of the business inputs that remain in the base. While in the fully harmonized alternative the sales taxes embedded in consumer prices decrease, in the modified RST alternatives the embedded sales taxes increase due to the inclusion of business energy. The reduction in the rate in the RST on goods and services alternative from the RST on goods alternative is paid

[9] The SPSD/M model was used to provide estimates on the distributional impact in Ontario of the current provincial RST and federal GST. As well, the model was used to provide data on the expenditure pattern, over income groups, of the commodities which were added to the RST base in the options. The SPSD/M model was also used to estimate the impact in Ontario of the new low-income credit and the current personal income tax. The FOCUS model provided estimates of the aggregate impact of the different consumption tax bases. The distributional impact was estimated by combining the aggregates with distributional data from SPSD/M. The aggregates were distributed to income groups in proportion to various available bases, as appropriate: the distribution of the consumption taxes (RST or GST); the distribution of expenditures on items added to the tax base; the distribution of the current personal income tax; and the distribution of the new modelled low-income sales tax credit.

[10] All distributional impact results are in 1991 dollars.

for by the personal sector as the expansion of the base is all on the personal side. As a result, the total tax collected on business inputs that remain in the base is reduced due to the lower rate.

Modified RST with extended goods base

In this alternative, the base of the retail sales tax was extended to equal that of the GST on goods, but not on services. As a result, exemptions for items such as books and children's clothing were eliminated. The revenue neutral rate dropped to 6.3 per cent. The largest change was the inclusion of energy for both personal and business consumption.

Sales taxes collected directly from persons decrease by $377 million in this simulation, as the expansion of the base to all energy shifts the balance of the revenue to the business sector away from the personal sector. Prices of consumer goods are increased by $580 million due to the increase in energy taxes being partially passed on to Ontario consumers. As a result, the impact net of price of this alternative is to increase taxes on the personal sector by $206 million. To offset the impact of this alternative on the first three income groups (credit one), an enrichment of the credit by $68 million is required. As a result, a $68 million increase in personal income taxes is required to pay for it. To reduce the sales tax net of price changes to zero for the first two income groups (credit two), an additional $1.2 billion must be added to the credit. As a result, a $1.2 billion increase in personal income taxes is required to pay for it. Table 5 has detailed information on the distributional impact of this alternative for both credits.

Modified RST with extended goods base and capital goods exempt

In this alternative, the base of the retail sales tax was the same as in the previous one, it was extended to equal that of the GST on goods, but not of services. The rate was reduced to 6.3 per cent. Capital goods were exempt with the associated revenue loss being recovered through an increase in personal income taxes.

Due to the manner in which these experiments were structured, the impact of this alternative on sales taxes is the same as the one described immediately above. However, the increased personal income taxes changes the aggregate impact. Sales taxes collected directly from persons decrease by $377 million in this simulation, due to the expansion of the base to energy shifting the balance of the revenue to the business sector from the personal sector. Personal income taxes collected are increased by $1.2 billion. Prices of consumer goods are increased by $580 million due to the increase in energy taxes being partially passed on to Ontario consumers. As a result, the impact net of price of this alternative is to increase taxes on the personal sector by $1.4 billion.

To offset the impact of this alternative on the first three income groups (credit one), an enrichment of the credit by $68 million is required. As a result, a $68 million

increase in personal income taxes is required to pay for it. To reduce the sales tax net of price changes to zero for the first two income groups (credit two), an additional $1.2 billion must be added to the credit. As a result, a $1.2 billion increase in personal income taxes is required to pay for it. Table 6 has detailed information on the distributional impact of this alternative.

Modified RST with base extended to goods and services and capital goods exempt

In this alternative, the base of the retail sales tax was extended to equal that of the GST on goods and personal services. Energy for both business and personal consumption was included in the base. The rate was reduced to 5.7 per cent. Capital goods were exempt with the associated revenue loss recovered through an increase in personal income taxes.

Sales taxes collected directly from persons decrease by $64 million in this simulation. Personal income taxes collected are increased by $1 billion. Prices of consumer goods are increased by $580 million due to the increase in energy taxes being partially passed on to Ontario consumers. As a result, the impact net of price of this alternative is to increase direct and indirect sales taxes on the personal sector by $518 million. The total increase in taxes on the personal sector of this alternative is $1.5 billion.

To offset the impact of this alternative on the first three income groups (credit one), an enrichment of the credit by $292 million is required. As a result, a $292 million increase in personal income taxes is required to pay for it. To reduce the sales tax net of price changes to zero for the first two income groups (credit two), an additional $1.4 billion must be added to the credit. As a result, a $1.4 billion increase in personal income taxes is needed to pay for it. Table 7 has detailed information on the distributional impact of this alternative.

Full Harmonization

In this alternative, Ontario implements a GST at a rate of 6 per cent. To maintain revenue neutrality, personal income taxes are increased to make up for the shortfall in revenue. Sales taxes collected from persons increase by $1.4 billion in this simulation. Personal income taxes increase by $1.3 billion. This is a total of $2.7 billion increase in taxes on the personal sector. Prices of consumer goods are decreased by $850 million due to the pass-through of a portion of the tax on business inputs. As a result, the impact net of price of this alternative is to increase taxes on the personal sector by $1.9 billion.

To offset the impact of the increased sales tax net of price changes on the first three income groups (credit one), an enrichment of the credit by $250 million is required. As a result, a $250 million increase in personal income taxes is required to pay for it.

To completely offset the sales tax net of price changes paid to zero on the first two income groups (credit two), an additional $1.3 billion must be added to the credit. As a result, a $1.3 billion increase in personal income taxes is required to pay for it. Table 8 has detailed information on the distributional impact of this alternative for both credits.

Table 8: Distributional Impact of Harmonization, 1991

Gross Household Income ($'s)	1-10,000	10,001-20,000	20,001-30,000	30,001-40,000	40,001-50,000	50,001-60,000	60,001-70,000	70,001-80,000	80,001-90,000	90,001-100,000	100,001-Max	All
Average Impact per Household ($'s)												
Current Ontario Retail Sales Tax (Personal Sector) @8%	466	601	1,064	1,441	1,747	1,939	2,262	2,557	2,843	3,174	4,590	1,981
Ontario GST @ 6%	630	853	1,381	1,758	2,093	2,316	2,656	2,987	3,286	3,678	5,257	2,361
Changes in Net Income												
Revenue recovered from Personal Income Tax (PIT)	0	(15)	(65)	(150)	(246)	(334)	(414)	(490)	(600)	(683)	(1,271)	(360)
Net Change in After Tax Income	(164)	(267)	(381)	(466)	(592)	(711)	(809)	(919)	(1,043)	(1,186)	(1,938)	(740)
Price Effects	82	102	148	184	216	249	282	314	325	359	396	233
Net Impact (Sales Tax and Price Effects Combined)	(82)	(150)	(168)	(133)	(130)	(128)	(112)	(116)	(117)	(144)	(272)	(147)
Total Impact (Sales Tax, PIT, and Price)	(83)	(165)	(234)	(283)	(376)	(462)	(526)	(606)	(718)	(827)	(1,542)	(507)
Credit One	148	158	147	96	55	28	19	13	11	20	16	69
PIT Offset to Credit One	0	(3)	(13)	(29)	(47)	(64)	(80)	(94)	(116)	(131)	(244)	(69)
Net Change (Tax, Price, Credit One, PIT)	66	(10)	(100)	(215)	(368)	(498)	(587)	(686)	(823)	(938)	(1,771)	(507)
Credit Two	648	732	708	526	361	228	137	84	62	103	81	366
PIT Offset to Credit Two	0	(15)	(66)	(153)	(250)	(340)	(422)	(498)	(611)	(695)	(1,293)	(366)
Net Change (Tax, Price, Credit Two, PIT)	565	552	408	90	(264)	(574)	(811)	(1,020)	(1,267)	(1,418)	(2,754)	(507)
Incidence - Percent of Gross Income												
Current Ontario Retail Sales Tax (Personal Sector) @8%	6.7%	4.1%	4.3%	4.1%	3.9%	3.5%	3.5%	3.4%	3.4%	3.3%	3.0%	3.5%
Ontario GST @ 6%	9.0%	5.8%	5.6%	5.0%	4.6%	4.2%	4.1%	4.0%	3.9%	3.9%	3.5%	4.2%
Changes in Net Income												
Revenue recovered from PIT	0.0%	-0.1%	-0.3%	-0.4%	-0.5%	-0.6%	-0.6%	-0.7%	-0.7%	-0.7%	-0.8%	-0.6%
Net Change in After Tax Income	-2.4%	-1.8%	-1.5%	-1.3%	-1.3%	-1.3%	-1.2%	-1.2%	-1.2%	-1.3%	-1.3%	-1.3%
Price Effects	1.2%	0.7%	0.6%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.3%	0.4%
Net Impact (Sales Tax and Price Effects Combined)	-1.2%	-1.0%	-0.7%	-0.4%	-0.3%	-0.2%	-0.2%	-0.2%	-0.1%	-0.2%	-0.2%	-0.3%
Total Impact (Sales Tax, PIT, and Price)	-1.2%	-1.1%	-0.9%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.9%	-1.0%	-0.9%
Credit One	2.1%	1.1%	0.6%	0.3%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
PIT Offset to Credit One	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.1%
Net Change (Tax, Price, Credit One, PIT)	0.9%	-0.1%	-0.4%	-0.6%	-0.8%	-0.9%	-0.9%	-0.9%	-1.0%	-1.0%	-1.2%	-0.9%
Credit Two	9.3%	5.0%	2.9%	1.5%	0.8%	0.4%	0.2%	0.1%	0.1%	0.1%	0.1%	0.6%
PIT Offset to Credit Two	0.0%	-0.1%	-0.3%	-0.4%	-0.6%	-0.6%	-0.7%	-0.7%	-0.7%	-0.7%	-0.9%	-0.6%
Net Change (Tax, Price, Credit Two, PIT)	8.1%	3.8%	1.7%	0.3%	-0.6%	-1.0%	-1.3%	-1.4%	-1.5%	-1.5%	-1.8%	-0.9%
Gross Income (Millions)	$624	$6,881	$10,890	$15,479	$21,984	$22,688	$22,778	$20,838	$16,270	$12,646	$56,070	$207,085

(Source: Fair Tax Commission Secretariat)

Table 5: Distributional Impact of Modified RST, Goods Base, 1991

Gross Household Income ($'s)	1-10,000	10,001-20,000	20,001-30,000	30,001-40,000	40,001-50,000	50,001-60,000	60,001-70,000	70,001-80,000	80,001-90,000	90,001-100,000	100,001-Max	All
Averages - $'s												
Current Ontario Retail Sales Tax (Personal Sector) @8%	466	601	1,064	1,441	1,747	1,939	2,262	2,557	2,843	3,174	4,590	1,981
Modified RST, Goods	441	570	1,009	1,367	1,656	1,839	2,145	2,424	2,695	3,010	4,351	1,878
Changes in Net Income												
Revenue recovered from Personal Income Tax (PIT)	0	0	0	0	0	0	0	0	0	0	0	0
Net Change in After Tax Income	24	31	55	75	91	101	117	133	148	165	238	103
Price Effects	(53)	(69)	(102)	(128)	(152)	(170)	(194)	(213)	(220)	(238)	(264)	(159)
Net Impact (Sales Tax and Price Effects Combined)	(29)	(38)	(47)	(53)	(61)	(70)	(77)	(80)	(73)	(73)	(26)	(56)
Total Impact (Sales Tax, PIT, and Price)	(29)	(38)	(47)	(53)	(61)	(70)	(77)	(80)	(73)	(73)	(26)	(56)
Credit One	40	43	40	26	15	8	5	4	3	5	4	19
PIT Offset to Credit One	0	(1)	(3)	(8)	(13)	(17)	(21)	(25)	(31)	(35)	(66)	(19)
Net Change (Tax, Price, Credit One, PIT)	11	4	(10)	(35)	(59)	(80)	(93)	(102)	(101)	(103)	(88)	(56)
Credit Two	556	627	607	451	310	196	117	72	53	88	70	314
PIT Offset to Credit Two	0	(13)	(57)	(131)	(214)	(292)	(361)	(427)	(524)	(596)	(1,108)	(314)
Net Change (Tax, Price, Credit Two, PIT)	527	576	503	267	34	(166)	(321)	(435)	(544)	(580)	(1,065)	(56)
Incidence - % of Gross Income												
Current Ontario Retail Sales Tax (Personal Sector) @8%	6.7%	4.1%	4.3%	4.1%	3.9%	3.5%	3.5%	3.4%	3.4%	3.3%	3.0%	3.5%
Modified RST, Goods	6.3%	3.9%	4.1%	3.9%	3.7%	3.4%	3.3%	3.2%	3.2%	3.2%	2.9%	3.3%
Changes in Net Income												
Revenue recovered from PIT	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Change in After Tax Income	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Price Effects	-0.8%	-0.5%	-0.4%	-0.4%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.3%
Net Impact (Sales Tax and Price Effects Combined)	-0.4%	-0.3%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	-0.1%
Total Impact (Sales Tax, PIT, and Price)	-0.4%	-0.3%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	-0.1%
Credit One	0.6%	0.3%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PIT Offset to Credit One	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Change (Tax, Price, Credit One, PIT)	0.2%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Credit Two	8.0%	4.3%	2.5%	1.3%	0.7%	0.4%	0.2%	0.1%	0.1%	0.1%	0.0%	0.6%
PIT Offset to Credit Two	0.0%	-0.1%	-0.2%	-0.4%	-0.5%	-0.5%	-0.6%	-0.6%	-0.6%	-0.6%	-0.7%	-0.6%
Net Change (Tax, Price, Credit Two, PIT)	7.6%	3.9%	2.0%	0.8%	0.1%	-0.3%	-0.5%	-0.6%	-0.6%	-0.6%	-0.7%	-0.1%
Gross Income (Millions)	$624	$6,881	$10,890	$15,479	$21,984	$22,688	$22,778	$20,838	$16,270	$12,646	$56,070	$207,085

(Source: Fair Tax Commission Secretariat)

Table 6: Distributional Impact of Modified RST, Goods Base - Capital Exempt, 1991

Gross Household Income ($'s)	1-10,000	10,001-20,000	20,001-30,000	30,001-40,000	40,001-50,000	50,001-60,000	60,001-70,000	70,001-80,000	80,001-90,000	90,001-100,000	100,001-Max	All
Average Impact per Household ($'s)												
Current Ontario Retail Sales Tax (Personal Sector) @8%	466	601	1,064	1,441	1,747	1,939	2,262	2,557	2,843	3,174	4,590	1,981
Modified RST, Goods Base - Capital Exempt	441	570	1,009	1,367	1,656	1,839	2,145	2,424	2,695	3,010	4,351	1,878
Changes in Net Income												
Revenue recovered from Personal Income Tax (PIT)	0	(13)	(57)	(132)	(215)	(293)	(363)	(430)	(527)	(599)	(1,115)	(316)
Net Change in After Tax Income	24	18	(2)	(57)	(125)	(193)	(246)	(297)	(379)	(434)	(877)	(213)
Price Effects	(53)	(69)	(102)	(128)	(152)	(170)	(194)	(213)	(220)	(238)	(264)	(159)
Net Impact (Sales Tax and Price Effects Combined)	(29)	(38)	(47)	(53)	(61)	(70)	(77)	(80)	(73)	(73)	(26)	(56)
Total Impact (Sales Tax, PIT, and Price)	(29)	(51)	(104)	(185)	(277)	(363)	(440)	(510)	(600)	(672)	(1,141)	(372)
Credit One	40	43	40	26	15	8	5	4	3	5	4	19
PIT Offset to Credit One	0	(1)	(3)	(8)	(13)	(17)	(21)	(25)	(31)	(35)	(66)	(19)
Net Change (Tax, Price, Credit One, PIT)	11	(9)	(68)	(166)	(274)	(373)	(457)	(532)	(628)	(702)	(1,203)	(372)
Credit Two	556	627	607	451	310	196	117	72	53	88	70	314
PIT Offset to Credit Two	0	(13)	(57)	(131)	(214)	(292)	(361)	(427)	(524)	(596)	(1,108)	(314)
Net Change (Tax, Price, Credit Two, PIT)	527	563	446	135	(181)	(459)	(685)	(865)	(1,070)	(1,179)	(2,179)	(372)
Incidence - Percent of Gross Income												
Current Ontario Retail Sales Tax (Personal Sector) @8%	6.7%	4.1%	4.3%	4.1%	3.9%	3.5%	3.5%	3.4%	3.4%	3.3%	3.0%	3.5%
Modified RST, Goods Base - Capital Exempt	6.3%	3.9%	4.1%	3.9%	3.7%	3.4%	3.3%	3.2%	3.2%	3.2%	2.9%	3.3%
Changes in Net Income												
Revenue recovered from PIT	0.0%	-0.1%	-0.2%	-0.4%	-0.5%	-0.5%	-0.6%	-0.6%	-0.6%	-0.6%	-0.7%	-0.6%
Net Change in After Tax Income	0.3%	0.1%	0.0%	-0.2%	-0.3%	-0.4%	-0.4%	-0.4%	-0.4%	-0.5%	-0.6%	-0.4%
Price Effects	-0.8%	-0.5%	-0.4%	-0.4%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.3%
Net Impact (Sales Tax and Price Effects Combined)	-0.4%	-0.3%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	-0.1%
Total Impact (Sales Tax, PIT, and Price)	-0.4%	-0.3%	-0.4%	-0.5%	-0.6%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.8%	-0.7%
Credit One	0.6%	0.3%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PIT Offset to Credit One	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Change (Tax, Price, Credit One, PIT)	0.2%	-0.1%	-0.3%	-0.5%	-0.6%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.8%	-0.7%
Credit Two	8.0%	4.3%	2.5%	1.3%	0.7%	0.4%	0.2%	0.1%	0.1%	0.1%	0.0%	0.6%
PIT Offset to Credit Two	0.0%	-0.1%	-0.2%	-0.4%	-0.5%	-0.5%	-0.6%	-0.6%	-0.6%	-0.6%	-0.7%	-0.6%
Net Change (Tax, Price, Credit Two, PIT)	7.6%	3.8%	1.8%	0.4%	-0.4%	-0.8%	-1.1%	-1.2%	-1.3%	-1.2%	-1.4%	-0.7%
Gross Income (Millions)	$624	$6,881	$10,890	$15,479	$21,984	$22,688	$22,778	$20,838	$16,270	$12,646	$56,070	$207,085

(Source: Fair Tax Commission Secretariat)

Table 7: Distributional Impact of Modified RST - Goods and Services Base - Capital Exempt, 1991

Gross Household Income ($'s)	1-10,000	10,001-20,000	20,001-30,000	30,001-40,000	40,001-50,000	50,001-60,000	60,001-70,000	70,001-80,000	80,001-90,000	90,001-100,000	100,001-Max	All
	Averages - $'s											
Current Ontario Retail Sales Tax (Personal Sector) @8%	466	601	1,064	1,441	1,747	1,939	2,262	2,557	2,843	3,174	4,590	1,981
Modified RST, Goods and Services Base - Capital Exempt	523	709	1,148	1,461	1,740	1,926	2,209	2,484	2,732	3,058	4,372	1,963
Changes in Net Income												
Revenue recovered from Personal Income Tax (PIT)	0	(12)	(51)	(116)	(190)	(259)	(321)	(380)	(466)	(530)	(985)	(279)
Net Change in After Tax Income	(58)	(120)	(134)	(137)	(184)	(246)	(268)	(306)	(355)	(413)	(768)	(262)
Price Effects	(53)	(69)	(102)	(128)	(152)	(170)	(194)	(213)	(220)	(238)	(264)	(159)
Net Impact (Sales Tax and Price Effects Combined)	(111)	(177)	(185)	(148)	(145)	(157)	(141)	(140)	(110)	(121)	(47)	(141)
Total Impact (Sales Tax, PIT, and Price)	(111)	(189)	(236)	(264)	(336)	(416)	(462)	(519)	(575)	(651)	(1,032)	(420)
Credit One	170	182	169	111	63	32	22	15	12	22	18	80
PIT Offset to Credit One	0	(3)	(14)	(33)	(54)	(74)	(92)	(108)	(133)	(151)	(281)	(80)
Net Change (Tax, Price, Credit One, PIT)	60	(10)	(82)	(187)	(327)	(458)	(532)	(612)	(696)	(780)	(1,295)	(420)
Credit Two	673	760	735	546	375	237	142	87	64	107	85	380
PIT Offset to Credit Two	0	(16)	(69)	(159)	(259)	(353)	(438)	(517)	(634)	(721)	(1,342)	(380)
Net Change (Tax, Price, Credit Two, PIT)	562	555	430	123	(220)	(533)	(758)	(949)	(1,145)	(1,265)	(2,290)	(420)
	Incidence - Percent of Gross Income											
Current Ontario Retail Sales Tax (Personal Sector) @8%	6.7%	4.1%	4.3%	4.1%	3.9%	3.5%	3.5%	3.4%	3.4%	3.3%	3.0%	3.5%
Modified RST, Goods and Services Base - Capital Exempt	7.5%	4.8%	4.6%	4.2%	3.9%	3.5%	3.4%	3.3%	3.2%	3.2%	2.9%	3.5%
Changes in Net Income												
Revenue recovered from PIT	0.0%	-0.1%	-0.2%	-0.3%	-0.4%	-0.5%	-0.5%	-0.5%	-0.5%	-0.6%	-0.7%	-0.5%
Net Change in After Tax Income	-0.8%	-0.8%	-0.5%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.5%	-0.5%
Price Effects	-0.8%	-0.5%	-0.4%	-0.4%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.3%
Net Impact (Sales Tax and Price Effects Combined)	-1.6%	-1.2%	-0.8%	-0.4%	-0.3%	-0.3%	-0.2%	-0.2%	-0.1%	-0.1%	0.0%	-0.3%
Total Impact (Sales Tax, PIT, and Price)	-1.6%	-1.3%	-1.0%	-0.8%	-0.7%	-0.8%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%
Credit One	2.4%	1.2%	0.7%	0.3%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
PIT Offset to Credit One	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.2%	-0.2%	-0.1%
Net Change (Tax, Price, Credit One, PIT)	0.9%	-0.1%	-0.3%	-0.5%	-0.7%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.9%	-0.7%
Credit Two	9.7%	5.2%	3.0%	1.6%	0.8%	0.4%	0.2%	0.1%	0.1%	0.1%	0.1%	0.7%
PIT Offset to Credit Two	0.0%	-0.1%	-0.3%	-0.5%	-0.6%	-0.6%	-0.7%	-0.7%	-0.7%	-0.8%	-0.9%	-0.7%
Net Change (Tax, Price, Credit Two, PIT)	8.1%	3.8%	1.7%	0.4%	-0.5%	-1.0%	-1.2%	-1.3%	-1.4%	-1.3%	-1.5%	-0.7%
Gross Income (Millions)	$624	$6,881	$10,890	$15,479	$21,984	$22,688	$22,778	$20,838	$16,270	$12,646	$56,070	$207,085

(Source: Fair Tax Commission Secretariat)

5. EVALUATION OF OPTIONS

In order to rank the options outlined above, and in an attempt to come to a consensus, working group members discussed the relative merits of each of the options. The results of the research on the distributional and economic impact of the alternatives did not provide a clear direction for change. When formulating their advice to the Treasurer, members found that a number of other issues—which were not quantifiable—entered into their deliberations.

Status Quo

The following positive aspects of leaving the retail sales tax unchanged were identified. The current retail sales tax is a well-established revenue source, and is familiar to vendors, consumers and those who administer it. Given current economic conditions, the fact that this option would not involve any implementation shocks or transitional costs is more important than it might be in a period of stronger economic growth. Some members felt that in the current climate of political and economic uncertainty, it would be more appropriate to delay reform until a later date, rather than harmonizing now with a system that might be radically changed in the near future. In addition, this option would not involve the competitive disadvantages associated with being the only province to tax a wide range of business services. Furthermore, within the context of revenue neutrality, there is still the possibility of redesigning the low-income credit to make it more sensitive to diverse spending patterns and needs.

However, working group members also identified the following negative aspects of maintaining the status quo. This option retains two administrative systems with the attendant complexity for businesses, consumers, and government administration. Some members felt that continued tax cascading is a particular problem (that is, due to the taxation of business inputs different products have differing amounts of sales tax embedded in their price). With an unchanged sales tax structure, the negative economic impact of taxing capital investment and exports will continue. In addition, the following were noted: i) the current out-dated system of exemptions and ineffective sales tax credits will be left in place; ii) cross-border shopping will continue to be retail sales tax free; and iii) there will be no alleviation of the burden on charities and non-profit organizations. Finally, some members felt that retaining a regressive tax base is a negative aspect of this option.

Elimination of the Retail Sales Tax

Some members felt that the replacement of the retail sales tax with progressive revenue sources is an essential policy goal. Elimination of the retail sales tax would, of course, end the dual sales tax systems and increase simplicity for consumers and in administration and compliance. The elimination of the retail sales tax would also have a favourable short run macroeconomic effect. The absence of an Ontario sales

tax would reduce cross-border shopping. However, working group members were aware of the repercussions of the loss of a major source of revenue for the government and the necessity to obtain this revenue from other sources. Finally, some members were concerned with the fact that the elimination of taxes on consumption increases the tax burden on savings (as a result of the shift of taxation from consumption to income).

Modified RST Options

Before moving on to the specific alternatives outlined in the research section, working group members considered the merits of modifying the RST in comparison to the status quo and the two harmonization options. Within the context of a modified RST, there is the opportunity to exempt selected business inputs from tax. In particular, exempting capital goods results in an increase in investment and therefore in productivity. From an administrative perspective, maintaining the RST, even with modifications, would be less disruptive than moving to an Ontario GST. Finally, the alternatives under consideration allowed for enhancement of the existing low income credit.

Under any structure in which the goods base matched that of the GST, the federal government's conditions for collection of retail sales taxes at the border would be met. This would improve cross-border sales tax collection and could contribute to a decrease in cross-border shopping. The expansion of the tax base has another potentially positive impact, in that the taxation of energy could induce a reduction in its use that would be environmentally beneficial. However, members were concerned about the inter-industry impact of applying the sales tax to energy.

Finally, working group members felt that a modified RST could be acceptable to the general public with the combination of a broader base, lower rate and enhancement of the low-income credit. However, the modified RST options have all the negative aspects associated with status quo with respect to cascading, administrative complexity, and the maintenance of a regressive tax base.

When considering the modified RST alternative with an extended goods base, members noted that it would address cross-border sales tax collection problems. However, it would be at the cost of extending the base to goods such as books and children's clothing; some members felt this would be in conflict with the social goals of taxation. Furthermore, this option did not produce any longer-term positive economic impacts, and had all the shortcomings associated with the status quo.

When considering the modified RST alternatives in which capital goods were exempt, working group members weighed the following factors. These options resulted in increased productivity through higher investment. However, the negative transitional costs in employment were of concern to some members, as was the transfer in taxation to persons resulting from the elimination of the tax on capital.

In light of these concerns, members noted that the alternative where the base was extended only to goods had the smallest negative impact on employment.

The alternative which extended the base to both goods and services had more potential for revenue generation. In addition, some members felt the fact that the extension of the base to services results in less tax-induced distortions to prices, and therefore economic behaviour, was an important positive aspect of the broader base. At the same time, some members noted the following: i) the inclusion of services also increases the burden on charities and non-profit organizations; ii) it shifts the long-term balance of income and consumption taxation seniors have faced over their lifetime; and, iii) the increase in taxation of services also discourages independent living for seniors and disabled persons.

With these alternatives, the administrative complexity associated with two tax systems is exacerbated by the increased number of exemptions. In the alternative where the base is extended to services, there is a further increase in compliance costs as the number of vendors collecting the tax is increased due to the inclusion of services.

Harmonization

In considering the implementation of an Ontario GST, the following positive implications were identified by working group members. Administration and compliance costs would be reduced for both business and governments. It would increase productivity through increased investment and, unlike the modified RST alternatives, eliminate all the sales tax embedded in the prices of exports. As a result, it would enhance the attractiveness of Ontario as an investment location. Some members felt the reductions in tax-induced distortions to market signals, due to both the broader tax base and the elimination of tax cascading, was a very important positive result. In addition, some members felt that the increased visibility of taxes paid by consumers due to the elimination of tax cascading was a positive result. Similarly, some members felt harmonization provides a non-distorting source for additional revenue for Ontario. Finally, harmonization would provide an opportunity to negotiate with the federal government on changing the structure of the GST; it would also provide the opportunity and the revenue for an enhanced low-income sales tax credit.

However, some working group members were extremely concerned about the loss of provincial autonomy associated with harmonization. This autonomy is needed to control the future direction of tax policy. Because of the current state of federal-provincial fiscal relations, the surrender of provincial control over a major revenue source was of concern to some members. An additional concern of some members was that harmonization at this time would be premature, due to the uncertain political climate, combined with the uncertainty associated with other provinces' actions on sales tax reform.

Some members were concerned that despite any low-income offsets, a move towards consumption taxes is regressive with respect to middle income families compared to high income families. Some members concerns about the impact of taxing services on various sectors outlined above remained. The amount of revenue shifted to the personal sector, as well as consumers' response to the increase in goods and services subject to the tax, without a substantial decrease in the rate, was of concern to some members.

Modified GST

Members noted that a modified GST would result in the positive impacts of harmonization outlined above. In addition, it would provide Ontario with more policy flexibility in determining the base and rebates for specified sectors than full harmonization. Implementation of a modified GST is seen as an opportunity, through negotiations with the federal government, to correct flaws in the federal system. These flaws are perceived by some members to be in the treatment of the MUSH sector, non-profit organizations and charities, housing, food and in the low-income credits. It would also provide an opportunity to negotiate with the federal government on an improved federal low-income sales tax credit.

The modified GST option also included all the negative aspects of full harmonization outlined above. Members noted there was no certainty that suggestions for changes in the structure of the GST would be accepted from the federal government. In addition, members were concerned that gains in administrative simplicity could be lost if provinces deviated too far from the federal structure. Some members were concerned that if the definition of the sales tax base was reopened, there would be intense pressure for changes in the treatment of a number of sectors. These changes might not necessarily meet public policy goals. In addition, once Ontario entered into an agreement with the federal government, both parties would be able to influence each other's behaviour.

6. RECOMMENDATIONS

Despite fundamental differences in their views on the appropriate direction for sales tax reform in Ontario, the working group reached agreement in a number of areas. Members were able to reach consensus on a number of goals and agreement on a recommendation for a set of interim reforms. These differences are outlined below, and are followed by the areas of agreement.

A major difference among members was the weighting of the importance of simplicity and neutrality versus the negative implications of the regressivity of sales taxes. This led to a major difference in the views on the taxation of services. While some members felt that expanding the base to services and harmonizing with the GST would increase its simplicity, neutrality and visibility; other members saw the expansion of the base to services as giving too much credibility to sales taxes as a method of raising revenue.

There was another area of major disagreement between working group members. Some members felt that provincial autonomy to direct tax policy was very important. Other members felt that the trade-offs between simplicity and provincial autonomy associated with harmonized sales tax systems were worthwhile.

Accordingly, some members felt Ontario should enter into negotiations with the federal government to harmonize their sales tax systems. Other members felt that the elimination of Ontario sales taxes should be the government's longer-term goal.

Finally, with respect to the recommendation made below, there were two areas where the group was not able to reach consensus. The first was the treatment of books and periodicals. Some members felt strongly that they should be exempt from tax. The second area in which consensus could not be reached was the manner in which the revenue loss associated with the recommendation should be recovered.

Areas of Consensus

Despite the differences among working group members on the goals for sales tax reform, working group members did have areas of agreement. The criteria that they set out at the beginning of the process, the need for some low-income relief to offset the regressivity of the sales tax and, the need for changes to the sales tax system to contribute to economic growth lead them to consensus on the following as appropriate goals for sales tax reform:

- Changes to the tax should encourage increased efficiency and productivity;
- The sales tax credit should be enhanced to offset any increase in tax paid by low-income individuals;

- All capital goods used for business investment should be exempt from sales tax;
- Sales taxes on business inputs, in addition to capital goods, should be reduced, provided any regressive impact from this change is offset by refundable tax credits;
- Short-run employment losses associated with reform should be minimized;
- There should be no relative shift towards sales taxes as a revenue source as compared with other tax bases;
- The sales tax burden on charities should be reduced;
- The sales tax burden on municipalities, universities, schools and hospitals should not be increased; and
- The GST should continue to be excluded from the base of the RST.

Recommendation

Despite the lack of consensus on broader goals, members had consensus on the following recommendation in the context of the concerns outlined above:

> As an interim measure, Ontario should broaden the retail sales tax base on goods to be consistent with the federal tax; the associated increase in revenue should be used to reduce the rate; all capital goods should be exempt from retail sales tax; and an enhanced refundable sales tax credit should be implemented to offset the impact of these changes on low-income individuals.

While some members saw this as an interim step to harmonization, others saw it as a way in which to mitigate the negative aspects of the current retail sales tax until the longer term goal of eliminating the tax could be achieved.

APPENDIX I

FOCUS-Ontario

FOCUS-Ontario is a model of the Ontario economy oriented to aggregate expenditure and fiscal detail, and intended for policy analysis and scenario projection.[11] It was constructed and is maintained at the Institute for Policy Analysis, at the University of Toronto, under the auspices of the Policy and Economic Analysis Program.

FOCUS-Ontario operates with FOCUS, the Institute's national macromodel. The division of responsibilities between FOCUS and FOCUS-Ontario is straightforward: FOCUS determines the exchange rate, all interest rates, all prices and indirectly some components of international trade. FOCUS-Ontario solves for variables deemed specific to Ontario: all income and expenditure detail, provincial employment, labour force and wages, and detail on revenue and expenditure by level of government.

The FOCUS-Ontario model consists of 297 variables of which about 240 are behaviourally determined or are identities. The major exogenous series within the model include demographics and various fiscal levers and instruments. Also exogenous to the Ontario equations are, of course, all the national variables of FOCUS.

The database for the FOCUS-Ontario model can be divided into several major segments. Provincial economic accounts, in current and constant dollars, are obtained from the Ontario provincial quarterly accounts developed by the Ontario Ministry of Treasury and Economics. The model also uses special detail on Ontario trade, both abroad and with the rest of Canada, that has recently been developed by the Ministry of Treasury and Economics. Government revenue and expenditure in Ontario by level of government are available in annual form from Statistics Canada and are converted to quarterly by the Institute using national patterns or other appropriate adjustments. Labour force, employment and population data are readily available from Statistics Canada's labour force survey.

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[11] This description was adapted from the Manual, FOCUS-Ontario model, Institute for Policy Analysis, March 1991.

Social Policy Simulation Database/Model (SPSD/M)

The SPSD/M is a micro-computer based product designed to analyze the financial interactions between governments and the household sector in Canada.[12] Made available by Statistics Canada, the SPSD/M can assess the cost implications or income redistributive effects of changes in the personal taxation and cash transfer system. The SPSD/M consists of two integrated parts: a database and a model.

The database is comprised of approximately 100,000 individuals in families. They are statistically representative of the Canadian population. Each observation contains enough information on each individual to compute taxes paid to and transfers received from federal and provincial governments. The database has been constructed from various statistical and administrative micro-data files for the year 1986. Parameters are supplied to modify the database to represent any year from 1984 to 1991.

The model is composed of static accounting algorithms which calculate taxes and transfers using legislated or proposed programs on each individual and family in the database. The model calculates both the personal income taxes and the sales and excise taxes associated with each individual or household. The sales and excise tax parameters are used by the model are estimated by a separate static Input-Output model.

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[12] This description was adapted from Bordt et. al. "The Social Policy Simulation Database and Model: An Integrated Tool for Tax/Transfer Analysis," Canadian Tax Journal vol 38, no. 1. 1990.

APPENDIX II

Organizations that Contributed Written Submissions

Board of Trade of Metropolitan Toronto

Canadian Appliance Manufacturers Association

Canadian Bankers Association

Canadian Bar Association - Ontario

Canadian Chemical Producers' Association

Canadian Federation of Independent Business

Canadian Life and Health Insurance Association Inc

Canadian Manufacturers' Association

Canadian Union of Public Employees

Consumers' Association of Canada (Ontario)

Ecumenical Coalition for Economic Justice

Food Services Industry Group:
- Beaver Foods Limited
- Cara Operations Limited
- Coca-Cola Beverages
- Marriott Management Services
- McDonald's Restaurants of Canada Limited
- Restauronics
- Scott's Food Services
- Tim Horton
- Versa Services Limited

Institute of Chartered Accountants of Ontario

Mississauga Board of Trade

Ontario Chamber of Commerce

Ontario Restaurant Association

Retail Council of Canada

Retail Task Force

Trust Companies Association of Canada

VS Services Limited

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